

# ANNUAL FINANCIAL STATEMENTS

for

## INGQUZA HILL LOCAL MUNICIPALITY

for the period ended 30 June: **2012**

Province:

Eastern Cape

### Contact Information:

Name of Municipal Manager:	M Fihlani
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Name of Chief Financial Officer:	T L Madikizela
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**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the period ended 30 June 2012

**General information**

**Members of the Executive Council**

Councillor P Mdindi	Mayor
Councillor D Mjokovana	Speaker
Councillor TT Besi	Member of the Executive committee
Councillor T Jotile	Member of the Executive committee
Councillor M Tenyane	Member of the Executive committee
Councillor PN Ngxamile	Member of the Executive committee
Councillor S Vatsha	Member of the Executive committee
Councillor B Mvulane	Member of the Executive committee
Councillor N Gexu	Member of the Executive committee
Councillor N Jiki	Member of the Executive committee
Councillor N Ndayi	Member of the Executive committee

**Municipal Manager**

M Fihlani

**Chief Financial Officer**

TL Madikizela

**Grading of Local Authority**

Grade 3

**Auditors**

Auditor-General

**Bankers**

First National Bank  
Flagstaff Branch  
6224175712 - Primary bank account

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**General information**

**Foreword**

We are pleased to present this financial report that reflects our commitment to the principle of good governance and clean administration by Ingquza Hill Local Municipality's Council

As a responsible local government structure, we have worked hard during the period under review to execute the mandate given to us by the communities we serve to advance their basic social needs and reduce the infrastructure development backlog that is faced by our country, this is our main business as the local sphere of South African Government according to section 216 of the Constitution of the Republic of South Africa.

As a developing local government institution, we place very high emphasis on total compliance with the financial legislation governing our conduct. We will continue to place great focus on empowering our public representatives in playing a vigorous oversight role in the management of public funds.

We wish to thank Council and our administration for their hard work in ensuring that we post positive results in respect of our financial management.

Thank you

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Councillor PJ Mdinci  
Mayor

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the period ended 30 June 2012

**General information (continued)**

**Registered Office:** 135 Main Street, Flagstaff

**Physical address:**  
135 Main Street  
FLAGSTAFF  
4810

**Postal address:**  
PO Box 14  
FLAGSTAFF  
4810

**Telephone number:** 039 252 0131

**Fax number:** 039 252 0699

**E-mail address:** [mfihlani@ihlm.gov.za](mailto:mfihlani@ihlm.gov.za)

## **INGQUZA HILL LOCAL MUNICIPALITY**



### **ANNUAL FINANCIAL STATEMENTS**

**for the period ended**

**30 June 2012**

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 52, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 19 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**M Fihlani**  
**Municipal Manager**

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2012**

<b>INDEX</b>	<b><u>Page</u></b>
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Accounting Policies	10 - 23
Notes to the Annual Financial Statements	24 - 54

**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2012**

	Notes	2012 R '1	2011 R '1
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>		<b>618 616 779</b>	<b>606 463 983</b>
Accumulated surplus	1	618 616 779	606 463 983
<b>Non-current liabilities</b>		<b>6 981 090</b>	<b>6 825 840</b>
Long term loan - DBSA	2	6 825 840	6 825 840
Finance lease liability	39	155 250	-
<b>Current liabilities</b>		<b>16 486 797</b>	<b>18 639 203.57</b>
Current provisions	3	2 362 588	1 635 927
Current portion of finance lease liability	39	95 812	-
Trade and other payables from exchange transactions	4	10 832 534	7 931 511
Unspent conditional grants and receipts	5	2 808 758	8 709 183
Bank overdraft	7	-	-
Sundry creditors	4	387 104	362 583
<b>Total Net Assets and Liabilities</b>		<b>642 084 665</b>	<b>631 929 026</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>590 017 690</b>	<b>603 161 722</b>
Property, plant and equipment	8	293 899 318	307 280 449
Intangible assets	9	-	-
Investment property	10	292 063 600	292 063 600
Investment held as a collateral	6	4 054 772	3 817 673
<b>Current assets</b>		<b>52 066 975</b>	<b>28 767 204</b>
Consumer debtors from non-exchange transactions	11	1 530 273	1 373 694
Sundry debtors from exchange transactions	11	1 313 407	1 237 391
VAT receivable	12	1 671 019	6 282 703
Inventory	26	4 488 580	4 401 501
Bank balances and cash	7	43 063 696	15 471 915
<b>Total Assets</b>		<b>642 084 665</b>	<b>631 928 926</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
For the year ended 30 June 2012

	Notes	2012 R '1	2011 R '1
<b>REVENUE</b>			
Property rates	13	2 608 504	8 485 304
Service charges - refuse	14	920 188	1 177 934
Rental of facilities		20 955	29 562
Interest earned - external investments		2 405 634	1 604 941
Interest earned - outstanding receivables		193 804	412 659
Fines		372 600	208 366
Lease rentals		259 207	224 008
Licences and permits		-	24 491
Government grants and subsidies	15	139 240 425	122 790 985
Other income	16	9 800 129	10 427 052
<b>Total Revenue</b>		<b>155 821 445</b>	<b>145 385 301</b>
<b>EXPENDITURE</b>			
Employee related costs	18	47 511 683	46 335 247
Remuneration of Councillors	19	13 480 777	11 400 635
Repairs and maintenance		878 118	2 007 667
Impairment of debtors/(Reversal of impairment)		(806 485)	5 509 884
Interest paid	20	474 094	246 248
Finance costs		27 302	-
General expenses	23	51 467 959	42 967 507
<b>Total expenditure</b>		<b>113 033 449</b>	<b>108 467 189</b>
<b>SURPLUS FOR THE YEAR</b>		<b>42 787 995</b>	<b>36 918 112</b>

**INGQUZA HILL LOCAL MUNICIPALITY**

**STATEMENT OF CHANGES IN NET ASSETS**

**For the year ended 30 June 2012**

Notes	Accumulated Surplus/(Deficit)	Total
<b><u>2 011</u></b>	<b>R '1</b>	<b>R '1</b>
Balance at 01 July 2010	37 062 980	37 062 980
Correction of prior period error	-	-
Surplus for the year before restated figures	58 580 671	58 580 671
<b>Reported previous year</b>	<b>95 643 651</b>	<b>95 643 651</b>
Adjustments as a result of GRAP implementation (Not 32.0	532 482 891	532 482 891
Adjusted surplus for the year	36 918 112	36 918 112
	<b>606 463 983</b>	<b>665 044 654</b>
<b><u>2012</u></b>		
Balance at 01 July 2011	-	606 463 983
Change in accounting policy		-
Balance at 01 July 2011	-	606 463 983
Correction of errors		0.00-
Surplus for the year	42 787 995	42 787 995
Prior year adjustments	(30 635 200)	(30 635 200)
Balance at 30 June 2012	<b>618 616 779</b>	<b>618 616 779</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
For the year ended 30 June 2012

	Notes	2012 R '1	2011 R '1
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from ratepayers, government and other		157 707 821	673 323 764
Cash paid to suppliers and employees		(92 634 447)	(94 155 820)
Cash generated by operations	29	65 073 374	579 167 944
Investment income		2 405 634	1 604 941
Interest paid		(501 396)	(246 248)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b><u>66 977 612</u></b>	<b><u>580 526 638</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(31 992 111)	(576 025 431)
WIP transfer to finished assets		22 516 981	-
Prior year adjustment		(30 635 200)	30 135
Investment held as a collateral		-	-
Impairment		806 485	
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b><u>(39 303 845)</u></b>	<b><u>(575 995 297)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease		155 250	-
Investment held as collateral		(237 099)	(263 657)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b><u>(81 849)</u></b>	<b><u>(263 657)</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b><u>27 591 918</u></b>	<b><u>4 267 684</u></b>
Cash and cash equivalents at the beginning of the year		15 471 914	11 204 230
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>43 063 833</u></b>	<b><u>15 471 914</u></b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2012**

**1. BASIS OF ACCOUNTING**

**1.1 Basis of presentation**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) and we have adopted the requirements exempted in Gazette 30013 of 27 June 2007. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Accounting for Investments in Associates
GRAP 8	Financial Reporting of Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 24	Presentation of budget information vs actuals
GRAP 26	Impairment of cash generating assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible assets

The following are the statements that are approved but not yet effective

GRAP 20	Related party disclosures
GRAP 18	Segment reporting
GRAP 25	Employee benefits
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

Where there is no equivalent standard of GRAP or IPSAS an International Financial Reporting Standard (IFRS) that is effective forms part of the GRAP reporting framework. This applies to the accounting standards detailed below:

IAS 12 (AC102)	Income Taxes
IAS 14 (AC 115)	Segment reporting
IAS19 (AC 116)	Employee benefits
IAS20 (AC 134)	Accounting for government grants and disclosure of government assistance
IAS24 (AC 126)	Related party disclosures
IAS26 (AC 136)	Accounting and rereporting by retirement benefit plans
IAS29 (AC 124)	Financial reporting in hyperinflationary economies
IAS 30 (AC 120)	Disclosures in the financial statements of banks and similar financial institutions
IAS 32 (AC 125)	Financial instruments: Disclosure and presentation
IAS 33 (AC 104)	Earnings per share
IAS 34 (AC 127)	Interim Financial Reporting
IAS 36 (AC 128)	Impairment of assets
IAS 39 (AC 133)	Financial instruments: Recognition and measurement
IFRS 02 (AC 139)	Share-based payment
IFRS 03 (AC 140)	Business combinations
IFRS 04 (AC 141)	Insurance contracts
IFRS 06 (AC 143)	Exploration for and evaluation of mineral resources
IFRS 07 (AC 144)	Financial Instruments: Disclosures

Exemptions from these standards as they relate to the interim arrangements on the implementation of GRAP are detailed under each relevant accounting policy note below as they apply to the municipality.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2012**

**1. BASIS OF ACCOUNTING(continued)**

**1.2 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

**1.3 Going concern assumption**

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

**1.4 Comparative information**

Budget information in accordance with GRAP 1 and GRAP 24 has been provided in note 35 to these financial statements and forms part of the annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far practicable and the prior year comparatives are restated accordingly.

**1.5 Accounting policies, changes in accounting estimates and errors**

The municipality is fully complying with all the relevant GRAP standards.

**1.6 Housing development fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

**2. RESERVES**

**2.1 Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**2.2 Government Grant Reserve**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated a transfer is made from the Government Grant to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

**2.3 Revaluation Reserve**

The surplus/deficit arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated deficit while gains or losses on disposal based on revalued amounts, are credited or charged to the Statement of Financial Performance.

**3. PROPERTY, PLANT AND EQUIPMENT**

**3.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used for more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located. The Municipality is complying with Directive 5

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no cost or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be a provisional amount.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them for more than one year. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**3. PROPERTY, PLANT AND EQUIPMENT (Cont.)**

**3.2 Subsequent measurement - revaluation model (Land and Buildings)**

The municipality has applied Directive 5 with regards to GRAP17 - Property, plant and equipment and therefore has done subsequent measurement.

**3.3 Depreciation and impairment**

As the municipality has applied Directive 5 with regards to GRAP17 - Property, plant and equipment as relates to measurement, depreciation has been accounted for in the annual financial statements.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the asset register's estimated average asset lives.

**3.4 Derecognition**

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset and/or when it is transferred to other organ of state(funder). The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**4. INVESTMENT PROPERTY**

**4.1 Initial recognition**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where an investment property is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

**4.2 Subsequent measurement - revaluation model (Investment property)**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

**4.3 Depreciation and impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the asset register's estimated average asset lives.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**4. INVESTMENT PROPERTY (Cont.)**

**4.4 Derecognition**

Items of Investment Property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**5. TRADE AND OTHER RECEIVABLES**

Trade and other receivable are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

**6. TRADE PAYABLES AND BORROWINGS**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayment, plus interest.

**7. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets, loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on the bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**8. INVENTORIES**

**8.1 Initial Recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

**8.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method.

**9. FINANCIAL INSTRUMENTS**

The Municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

**9.1 Financial Assets - Classification**

A financial asset is any asset that is cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereof:

- a) Investment in Fixed Deposits (Banking Institutions, etc)
- b) Long term receivables
- c) Consumer debtors
- d) Other debtors
- e) Bank, cash and cash equivalents

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**9. FINANCIAL INSTRUMENTS (continued)**

**9.1 Financial assets (continued)**

Type of financial assets	Classification in terms of IAS 36.06
Short term investment deposits - call	Available for sale
Bank, cash and cash equivalents	Available for sale
Long term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
Bank, cash and cash equivalents	Held at maturity

Financial assets at fair value through profit and loss are financial assets that meet either of the following conditions:

- They are classified as held for trading; or
- Upon initial recognition they are designated as a fair value through the Statement of Financial Performance.

Available for sale investment are financial assets that are designated as available for sale or are not classified as:

Loans and receivables  
Held to maturity investments; or  
Financial asset at fair value through the Statement of Financial Performance.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment maturity.

Loans and receivables are non derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are provision for impairment.

**9.2 Financial liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereof:

- a) Long term liabilities
- b) Creditors
- c) Bank overdraft
- d) Short term loans
- e) Current portion of long term liabilities

There are two main categories of financial liabilities, the classification based on how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Not at fair value through profit or loss (other financial liabilities)

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**9. FINANCIAL INSTRUMENTS (continued)**

**9.2 Financial liabilities (continued)**

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. Purchase with the intention to sell or repurchase in the short term, derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short term profiteering or are resulted gain or loss recognised in the Statement of Financial Performance).

Any other financial liabilities should be classified as financial liabilities that are not measured at fair value through profit or loss are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the Municipality are all classified as financial liabilities that are not measured at fair value through profit or loss.

**9.3 Initial and Subsequent Measurement**

**9.3.1 Financial Assets:**

Held to maturity investments and loans and receivables are initially measured at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective interest method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Fair Value and Available for sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

**9.3.2 Financial liabilities**

Financial liabilities at fair value and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rates method.

**9.4 Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39

Initially accounts impairment of trade receivables are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identify as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**9. FINANCIAL INSTRUMENTS (continued)**

**9.4 Impairment of financial assets (continued)**

With the exception of Available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available for sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial Performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Consumer debtor are stated at cost less a provision for impairment. The provision is made in accordance with IAS 36.64 whereby the recoverability of consumer debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for such accounts are regarded as receivable.

Loans and receivable are non-derivative Financial Assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

**9.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the assets expires or it transfers the financial asset and subsequently all the risks and rewards of ownership of the asset to another entity, except when the Council approves the write-off of Financial Assets due to non-recoverability.

If the Municipality neither transfers nor retains substantially all the risks and rewards of the ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the Municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**9.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, the municipality's obligations are discharged, cancelled or they expire.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**10 RISK MANAGEMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

It is the policy of the Municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instrument to which the Municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

**10.1 *Credit Risk***

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

**10.2 *Liquidity Risk***

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the financial statement

**11. PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable than an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (this for example applies in the case of obligations for the rehabilitation of the landfill site).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is removed. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating deficits. The present obligation under an onerous contract is recognised and measured as a provision.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**12. LEASES**

**12.1 Municipality as lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the payments which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to depreciation of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this on the basis of the cash flows in the lease agreement. The principle of smoothing the current and future lease payments has not been applied. Notwithstanding the exemptions on the recognition of operating lease agreement, the municipality has early adopted IAS 17 (AC 105).

**12.2 Municipality as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**13. CONDITIONAL GRANTS AND RECEIPTS**

Revenue from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligation embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**14. REVENUE**

**14.1 REVENUE FROM EXCHANGE TRANSACTIONS**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passes to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

The municipality has opted to take advantage of the exemption on accounting for revenue in terms of GRAP 09. That means revenue has initially been measured at cost and not at fair value wherein all future receipts are discounted at the imputed rate of return.

**14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payments is received, together with an estimate of spot fines and summons that will be received based on past experience of amounts collected.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS (Continued)**

Revenue from public contributions and donations is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (56 of 2003) and is recognised when the recovery thereof from the responsible councils or officials is virtually certain.

**15. GRANTS, TRANSFERS AND DONATIONS**

Grants, transfers and donations received are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

**16. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance.

**17. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (32 of 2000), the Public Office Bearers Act (20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure is accounted for as an expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**18. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**19. BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

**20. RETIREMENT BENEFITS**

The municipality operates a defined contribution plan in the form of a provident fund scheme covering employees. The assets of the scheme are held separately from those of the municipality and are administered by the scheme's trustees. Contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered service entitling them to contributions.

**21. IMPAIRMENT OF ASSETS**

The municipality has taken advantage of the transitional arrangements with respect to IAS 36 (AC 128) impairment of assets, meaning that the municipality is exempted from complying with this standard.

**22. SEGMENT REPORTING**

The municipality has taken advantage of the transitional arrangements with respect to IAS 14 (AC 115) segment reporting, accordingly the municipality is exempted from complying with this standard.

**23. EVENTS AFTER THE REPORTING DATE**

The municipality considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2012) and the date on which the audit of the financial statements is completed (30 November 2012) are considered for inclusion in the annual financial statements.



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	<b>2012</b> R '1	<b>2011</b> R '1
<b>1 Accumulated surplus</b>		
Opening balance	605 660 355	(39 723 118)
Movements :		
Council	(42 787 995)	(33 454 346)
Municipal Manager	13 480 777	11 400 635
Budget & Treasury Office	4 603 525	3 132 491
Administration	(95 908 640)	(42 804 270)
Human Resource	11 452 938	8 486 499
Community & Social Services	2 340 129	2 600 992
Infrastructure	14 711 675	12 941 528
LED	(1 704 483)	(34 708 490)
	8 236 084	5 496 268
Adj. Opening balance	<u>(29 831 572)</u>	<u>(532 482 891)</u>
Closing balance	<b><u>618 616 778</u></b>	<b><u>605 660 355</u></b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2012

	<b>2012</b> R '1	<b>2011</b> R '1
<b>2 Long Term Liability</b>		
Loan - DBSA	6 825 840	6 825 840
Interest accrued - included in sundry creditors note 2	357 906	114 870
	<u>7 183 746</u>	<u>6 940 711</u>
The DBSA external loan is repayable in 2019. The fixed interest rate is 6.75% per annum. One bullet payment at the end of term from proceedings of zero coupon bonds. The payment shall commence on the last day of half year during which the first disbursement was advanced to the Borrower. The loan is secured by the investment held with FNB-RMB which was ceded to the DBSA which is an investment on zero coupon bond and has the following details: The loan was used to acquire plants		
Account number - 128331		
Type of account – RMB		
Value – R3 287 467		
<b>3 CURRENT PROVISIONS</b>		
<b>3.1 BONUS PROVISION</b>		
Openning balance	955 526	903 531
Current increase/(Decrease)	(1 168)	51 995
	<u>954 359</u>	<u>955 526</u>
This is a provision for service bonus payable to employees as at 30 June 2012. The uncertainty is the timing of the bonus payments		
<b>3.2 PERFORMANCE BONUS</b>		
Openning balance	680 400	-
Current increase/(Decrease)	727 830	680 400
	<u>1 408 230</u>	<u>680 400</u>
This is a provision for performance bonuses due to s57 managers as at 30 June 2012. The uncertainty is the timing.		
Current provisions	<u>2 362 588</u>	<u>1 635 927</u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R '1
<b>4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Retentions	3 589 494	-
Trade creditors	714 011	991 555.00
Accrual for Leave Pay	3 575 460	3 372 473.28
Prepaid income	2 953 569	2 536 648.54
Department of labour	-	1 030 833.68
<b>Balance at the end of the year</b>	<b><u>10 832 534</u></b>	<b><u>7 931 510.50</u></b>
<b>Sundry creditors</b>		
Interest on DBSA Loan (refer to note 2)	357 906	114 870.49
Other creditors	29 198	247 713.00
	<b><u>387 104</u></b>	<b><u>362 583</u></b>

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

Unspent LED	-	500 000
DME - Electrification	2 032 913	7 496 695
MIG Grant	775 845	712 488
	<b><u>2 808 758</u></b>	<b><u>8 709 183</u></b>

See note 15 for reconciliation of grants from other spheres of government. These unspent conditional grants at year end are directly cash backed as required by the MFMA i.e. at year end there were designated investment bank accounts supporting these unspent grants, however, all unspent conditional grants are classified as current liabilities, to be settled within next 12 months

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R '1
<b>6 INVESTMENT HELD AS A COLATERAL</b>		
Investment held as a collateral - FNB: RMB	<u>4 054 772</u>	<u>3 817 673</u>
The investment is with RMB and is pledged as security for loan with DBSA and the municipality has no access to the investment till the loan is repaid in 2019. This investment is on zero coupon bond and has the following details:		
Account number - 128331		
Type of account – RMB		
Value – R3 287 467		
<b>NB:</b> this is a financial asset		
<b>7 BANK, CASH AND OVERDRAFT BALANCES</b>		
The Municipality has the following bank accounts:		
<b>7.1 Current Account (Primary Bank Account)</b>	2012	2011
Bank statement Balance as at 01 July 2011	1 269 181	757 380
Bank statement balance as at 30 June 2012	<u>6 923 267</u>	<u>1 269 181</u>
Bank statement balance at the end of the year 2012 - overdrawn		
<b>Bank statement balance at the end of the year - overdrawn</b>	<u>-</u>	<u>-</u>
<b>7.2 Current and call accounts</b>	2012	2011
Meeg - 40-5276-4652 - call account	-	2 898 785
FNB - 6224175712 - primary account	6 923 266.66	1 240 492
FNB - 62003235307 - call account	8 719 439	1 403 411
FNB - 62219877836 - call account	173 860	169 978
Meeg - 9191358983 - call account <i>Closed</i>	(0)	5 180
Meeg - 9119635044 - call account <i>Closed</i>	-	268 758
Meeg - 9191358488 - call account <i>Closed</i>	-	5 180
Std bank - 2800784090 - call account <i>Closed</i>	-	9 625
Std bank - 388760435005 - call account <i>Closed</i>	-	91 665
FNB - 74233699310 - call account	1 906 719	7 503 209.06
FNB - 62231474537 - call account	861 928	1 227 562.55
FNB - 62231473761 - call account	24 381 831	581 038.81
<b>Cash book balance at the end of the year</b>	<u>42 967 043</u>	<u>15 404 885</u>
<b>Bank statement balance at the end of the year</b>	<b>42 967 043</b>	<b>15 404 885</b>
<b>7.3 Credit cards</b>		
Credit card - 8812712904786000	43 550	43 550
Credit card - 42571526747011	<u>52 972</u>	<u>22 972</u>
	<b><u>96 521</u></b>	<b><u>66 521</u></b>
<b>7.4 Petty cash balance</b>	<u>131</u>	<u>508</u>
<b>Bank and cash balance</b>	<u>43 063 695</u>	<u>15 471 914</u>
<b>Cash and cash equivalents</b>	<b><u>43 063 695</u></b>	<b><u>15 471 914</u></b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**8 PROPERTY, PLANT AND EQUIPMENT**

At 30 June 2012

**8.1 Reconciliation of Carrying Value**

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Motor vehicles	Other assets	Total
<b>Carrying values at 1 July 2011</b>	R '1 <b>12 173 200</b>	R '1 <b>283 121 681</b>	R '1 <b>49 117</b>	R '1 -	R '1 <b>11 936 451</b>	R '1 <b>307 280 449</b>
Cost	12 173 200	283 121 681	49 117	-	11 936 451	307 280 449
Correction of error	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-
Acquisitions	-	24 823 776	4 998 741	-	2 169 594	31 992 111
Capital under construction	-	(22 516 981)	-	-	-	(22 516 981)
Depreciation:	-	(22 406 203)	(60 770)	-	(389 287)	(22 856 260)
- based on cost	-	(22 406 203)	-	-	(389 287)	(22 795 490)
- based on revaluation	-	-	(60 770)	-	-	(60 770)
Carrying value of disposals:	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
						-
<b>Other movements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying values at 30 June 2012</b>	<b>12 173 200</b>	<b>263 022 272</b>	<b>4 987 088</b>	<b>-</b>	<b>13 716 758</b>	<b>293 899 318</b>
Cost	12 173 200	285 428 475	5 047 858	-	14 106 045	316 755 578.31
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	(22 406 203)	(60 770)	-	(389 287)	(22 856 260)
- Cost	-	(22 406 203)	-	-	(389 287)	(22 795 490)
- Revaluation	-	-	(60 770)	-	-	(60 770)

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2012

8.2 ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2012

										Carrying Value	
	Cost / Revaluation					Accumulated Depreciation					
	Opening Balance	Additions	Under Construction	Transfer / Completed	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance		
<b>Land and Buildings</b>											
Land	292 063 600	-	-	-	292 063 600	-	-	-	-	292 063 600	
Land and buildings	12 173 200	-	-	-	12 173 200	-	-	-	-	12 173 200	
	<b>304 236 800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304 236 800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304 236 800</b>	
<b>Infrastructure</b>											
Street Lights											
Infrastructure - Work in Prog	38 838 717	-	-22 516 981	-	16 321 736	-	-	-	-	16 321 736	
Access Roads	265 719 858	24 823 776	-	-	290 543 634	21 436 894	22 406 203	-	43 843 097	246 700 537	
	<b>304 558 575</b>	<b>24 823 776</b>	<b>-22 516 981</b>	<b>-</b>	<b>306 865 369</b>	<b>21 436 894</b>	<b>22 406 203</b>	<b>-</b>	<b>43 843 097</b>	<b>263 022 272</b>	
<b>Community assets</b>											
Graveyard	62 049				62 049	12 932	12 967	-	25 899	36 150	
Recreation grounds						-	-	-	-	-	
Community Halls		4 998 740.79			4 998 741	-	47 803	-	47 803	4 950 938	
	<b>62 049</b>	<b>4 998 741</b>	<b>-</b>	<b>-</b>	<b>5 060 790</b>	<b>12 932</b>	<b>60 770</b>	<b>-</b>	<b>73 702</b>	<b>4 987 088</b>	
<b>Leased assets</b>											
Motor vehicles		-	-	-	-	-	-	-	-	-	
<b>Other assets</b>											
Landfill site	401 107				401 107	59 087	59 249	-	118 336	282 771	
Fire arms	-	60 500			60 500	-	-	-	-	60 500	
Furniture and fittings	747 374	49 878.06			797 252	36 765	55 664	-	92 429	704 823	
Plant and equipment	7 250 420	-0			7 250 420	245 398	60 546	-	305 944	6 944 476	
Motor vehicles	3 735 615	841 313			4 576 928	192 215	113 930	-	306 145	4 270 783	
Mobile office		453 500			453 500		1 836	-	1 836	451 664	
Tools, arms & mobile office	6 451	88 941			95 392	344	17 784	-	18 128	77 263	
Computer equipment	338 199	675 462			1 013 661	8 906	80 278	-	89 184	924 478	
	<b>12 479 166</b>	<b>2 169 594</b>	<b>-</b>	<b>-</b>	<b>14 648 760</b>	<b>542 715</b>	<b>389 287</b>	<b>-</b>	<b>932 002</b>	<b>13 716 758</b>	
	<b>621 336 590</b>	<b>31 992 111</b>	<b>-22 516 981</b>	<b>-</b>	<b>630 811 719</b>	<b>21 992 541</b>	<b>22 856 260</b>	<b>-</b>	<b>44 848 801</b>	<b>585 962 918</b>	

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**9 INTANGIBLE ASSETS**

9.1 Reconciliation of carrying value	Computer Software R	Other* R	Total R
<b>as at 01 July 2011</b>	-	-	-
Cost	-	-	-
Correction of error			-
Change in accounting policy			-
Accumulated amortisation and impairment losses	-	-	-
Acquisitions	-	-	-
Amortisation	-	-	-
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
<b>as at 30 June 2012</b>	-	-	-
Cost	-	-	-
Accumulated amortisation and impairment losses	-	-	-

**NB:** The Municipality does not have any intangible assets that it owes as at end of June 2012

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE**

10.1 Reconciliation of fair value	Investment property R	Investment property R	Total R
as at 01 July 2011	292 063 600	-	292 063 600
Acquisitions	-	-	-
Fair value adjustment	-	-	-
Fair value of disposals	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
as at 30 June 2012	<u>292 063 600</u>	-	<u>292 063 600</u>

**10.2 Investment property pledged as security**

10.3 Details of investment property	2012 R '1	2011 R '1
<b>Investment property</b>		
Land held for an undetermined use	287 800 000	287 800 000
Land under operating lease	4 263 600	4 263 600
	<u>292 063 600</u>	<u>292 063 600</u>
<b>Investment property</b>		
Terms and conditions	-	-
Purchase price: date	-	-
Additions since purchase	-	-
Capitalised expenditure	-	-
	<u>                </u>	<u>                </u>

**10.4 Rental income from investment property**

Direct operating expenses from rental generating property  
Direct operating expenses from non-rental generating property

**10.5 Details of valuation**

The effective date of the revaluations was 01 July 2009 to 30 June 2013. Revaluations were performed by an independent valuer, Mr Clyde, of Kula Valuations. Kula Valuation is not connected to the entity and have recent experience in location and category of the investment property being valued.  
The valuation was based on open market value for existing use.

**10.6 Amounts recognised in surplus or deficit for the year.**

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**11 DEBTORS**

**11.1 CONSUMER DEBTORS**

	<b>Gross balance</b> <b>R '1</b>	<b>Provision for bad debts</b> <b>R '1</b>	<b>Net balances</b> <b>R '1</b>
<b>As at 30 June 2012</b>			
Business	20 625 260	(20 212 755)	412 505
Domestic	12 322 718	(12 076 264)	246 454
Government	4 740 763		4 740 763
	<b>37 688 741</b>	<b>(32 289 018)</b>	<b>5 399 723</b>
<b>Discounting effect</b>			
Consumer debtors	37 688 741	Refuse	Rates
Finance income	(186 140)		
Unearned finance charges	(3 565 441)		
Provision for bad debts	(32 102 878)		
<b>Debtors @ fair value</b>	<b>1 834 282</b>	<b>304 009</b>	<b>1 530 273</b>
<b>As at 30 June 2011</b>			
Debtors	37 766 785	(33 092 304)	4 674 481
	<b>37 766 785</b>	<b>(33 092 304)</b>	<b>4 674 481</b>
Un-earned interest 2011			(3 077 163)
<b>Adjusted balance</b>			<b>1 597 318.47</b>
	<b>2012</b> <b>R '1</b>	<b>2011</b> <b>R '1</b>	
<b>Refuse and Rates: Ageing</b>			
0 - 30 days (current)	106 923	130 075	
31 - 60 days	105 658	102 292	
61 - 90 days	117 312	109 336	
91 -120 days	106 700	64 411	
121 - 150 days	104 717	109 114	
151 - 180 days	101 712	108 273	
181 - 210 days	103 155	113 646	
211 - 240 days	99 396	6 615 688	
241 - 270 days	103 553	89 149	
271 - 300 days	103 152	97 407	
301 - 330 days	102 620	92 065	
331 - 360 days	1 705 464	109 024	
+361 days	34 828 379	30 026 306	
<b>Total</b>	<b>37 688 741</b>	<b>37 766 785</b>	
<b>Summary of Debtors by Customer Classification</b>			
In terms of the financial instruments classification (Note 32), management has classified consumer debtors as loans and receivables for the purposes of assessing credit risk and liquidity (Notes 11.1 and 11.2). The concentration of credit risk has been on residential consumers. Provision for impairment of consumer debtors has been more aggressive in the year under review, and has been made for all residential consumer balances outstanding for 98% of outstanding debt bases on collection. In management's professional judgement, no further credit provision is required in excess of the Provision for impairment.			
Consumer Debtors comprises a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors.			
Consumer Debtors are presented net of provision for impairment.			
<b>11.2 Debtors from exchange transactions</b>			
Property rates	304 009	223 625	
Sundry debtors from exchange transactions	1 009 398	1 013 766	
	<b>1 313 407</b>	<b>1 237 391</b>	
<b>12 VAT</b>	<b>1 671 019</b>	<b>6 282 703</b>	

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**2012**  
**R '1**

**2011**  
**R '1**

**13 PROPERTY RATES**

Actual

Rates	2 477 920	8 485 303.81
Finance charge	(130 584)	(2 714 486)
<b>Total assessment rates</b>	<b>2 608 504</b>	<b>5 770 817.62</b>

Property valuations

Rates

**Total property valuations**

**-**

**-**

Valuations on land and buildings are performed every four years.  
The last valuation came into effect on 01 July 2009. A 0.02 for Government and businesses and 0.015 for residential is applied to property valuations to determine the assessment rates. Rates are levied on an annual basis on property owners.

**14 SERVICE CHARGES**

Refuse charges	864 632	1 177 934
Finance charge	(55 556)	(445 960)
	<b>920 188</b>	<b>731 973</b>

**15 GOVERNMENT GRANTS AND SUBSIDIES**

**National Transfers**

Equitable share	97 182 000	73 505 177
Department of Minerals and Energy	7 463 782	16 513 868
Municipal Finance Management Grant	1 450 000	1 200 000
MIG Grant	31 479 643	27 213 512

**Provincial Transfers**

MSIG Grant	790 000	750 000
Municipal Support Programme	-	-
IEC GRANT	-	1 050 000
LED grant	500 000	-
EPWP GRANT	375 000	2 113 000

**District Transfers**

IDP Development - Grant	-	445 428
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<b>Total government grants and subsidies</b>	<b>139 240 425</b>	<b>122 790 985.21</b>
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**NB:** there are no transfers(grants) that are made out by the Municipality

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R' 1
<b>15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>15.1 Equitable share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.		
	<u>97 182 000</u>	<u>73 505 177</u>
<b>15.2 Department of Minerals and Energy</b>		
Balance unspent at the beginning of the year	7 496 695	9 010 563
Current year receipts	2 000 000	15 000 000
Conditions met - transferred to revenue	<u>(7 463 782)</u>	<u>(16 513 868)</u>
<b>Conditions not met - transferred to liability</b>	<u>2 032 913</u>	<u>7 496 695</u>
This is an electrification support grant. Conditions yet to be met are that the municipality must still utilise this funding for electrification expenditure purposes. This expenditure is only for wards electrification		
<b>15.3 MSIG Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	790 000	750 000
Conditions met - transferred to revenue	<u>(790 000)</u>	<u>(750 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
<b>15.4 Municipal Finance Management Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 450 000	1 200 000
Conditions met - transferred to revenue	<u>(1 450 000)</u>	<u>(1 200 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
<b>15.5 IDP Development - Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	445 428
Conditions met - transferred to revenue	<u>-</u>	<u>(445 428)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This is the grant spent on IDP and Budget related purposes		
<b>15.6 MIG Grant</b>		
Balance unspent at the beginning of the year	712 489	1 700 001
Current year receipts	31 543 000	26 226 000
Conditions met - transferred to revenue	<u>(31 479 643)</u>	<u>(27 213 512)</u>
<b>Conditions not met - transferred to liability</b>	<u>775 846</u>	<u>712 489</u>
This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes; this grant is only spent on road construction and community halls		
<b>15.7 IEC GRANT</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	0	1 050 000
Conditions met - transferred to revenue	<u>-</u>	<u>(1 050 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This was spent on roads repairs and maintenance during the IEC period		
<b>15.8 LED PROJECTS</b>		
Balance unspent at the beginning of the year	500 000	-
Current year receipts	0	500 000
Conditions met - transferred to revenue	<u>(500 000)</u>	<u>-</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>500 000</u>
Conditions to be met by building hawker stalls		
<b>15.9 EPWP GRANT</b>		
Balance unspent at the beginning of the year	(228 580)	-
Current year receipts	375 000	2 113 000
Conditions met - transferred to revenue	<u>(2 392 106)</u>	<u>(2 341 580)</u>
<b>Conditions met - transferred to revenue</b>	<u>(2 245 686)</u>	<u>(228 580)</u>
EPWP assist in the road construction and maintenance and road fencing		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

16 Other Income	2012 R'1	2011 R'1
ADVERTISING FEES RENTAL	200 180	138 696
FUNERAL FEES	12 632	13 684
PLANT HIRE	6 364 266	7 594 875
LG SETA	364 025	24 000
INSURANCE REFUND	-	-
PLAN FEES	84 632	119 962
POUND FEES	83 367	19 915
REZONING & SUBDIVISION	92	2 763
SALE OF SITES	-	-
SALE OF WOOD	38 560	58 589
PAYMENT SUSPENSE	-	116 002
NATIS AGENCY FEES	2 424 037	2 271 370
SUNDRY INCOME	46 123	2 040
TENDER DOCUMENTS	83 553	51 704
VUNA AWARD	95 000	0.00-
VENDING & HAWKING	3 664	13 450
<hr style="border-top: 1px solid black;"/>		
	<b>9 800 129</b>	<b>10 427 052</b>
<hr style="border-top: 1px solid black;"/>		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R '1
<b>17 Municipal Support Programme</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
<b>Conditions still to be met - transferred to liabilities</b>	<u><u>-</u></u>	<u><u>-</u></u>
	<u><u>-</u></u>	<u><u>-</u></u>
<b>18 EMPLOYEE RELATED COSTS</b>		
Employee related costs - Salaries and wages	33 152 697	32 260 677
Employee related costs - Contributions for UIF, provident, m/aid, etc	5 757 617	5 689 377
Travel, motor car, accommodation, subsistence	2 946 340	2 672 064
Overtime payments	2 290 199	2 480 417
Housing benefits and allowances	1 175 100	1 237 048
Provisions	2 189 731	1 995 664
<b>Total employee related costs</b>	<u><u>47 511 683</u></u>	<u><u>46 335 247</u></u>
<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	800 270	715 425
Car allowance	138 969	129 141
Contribution to UIF and other payments	147 583	17 771
	<u><u>1 086 822</u></u>	<u><u>862 338</u></u>
<b>Remuneration of the Chief Finance Officer</b>		
Annual remuneration	598 871	613 794
Car allowance	89 019	98 800
Contribution to UIF and other payments	133 243	30 340
	<u><u>821 133</u></u>	<u><u>742 934</u></u>
<b>Remuneration of the Corporate Services</b>		
Annual remuneration	679 284	608 395
Car allowance	144 786	134 551
Contribution to UIF and other payments	109 171	0
	<u><u>933 241</u></u>	<u><u>742 947</u></u>
<b>Remuneration of the Technical Services</b>		
Annual remuneration	563 287	102 316
Car allowance	126 349	16 000
Contribution to UIF and other payments	52 750.16	
	<u><u>689 636</u></u>	<u><u>171 066</u></u>
<b>Remuneration of the Community Services</b>		
Annual remuneration	620 430	608 395
Car allowance	129 733	134 551
Contribution to UIF and other payments	113 439	0
	<u><u>863 602</u></u>	<u><u>742 947</u></u>
<b>Remuneration of the Strategic Planning</b>		
Annual remuneration	348 024	608 395
Car allowance	67 557	134 551
Contribution to UIF and other payments	109 002	0
	<u><u>524 583</u></u>	<u><u>742 947</u></u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R '1
<b>19 REMUNERATION OF COUNCILLORS</b>		
<b>Mayor</b>		
Annual remuneration	462 600	429 747
Allowances, contribution to UIF and related items	<u>167 728</u>	<u>159 998</u>
	<b><u>630 328</u></b>	<b><u>589 745</u></b>
<b>Speaker</b>		
Annual remuneration	367 174	343 832
Allowances, contribution to UIF and related items	<u>18 396</u>	<u>122 779</u>
	<b><u>385 570</u></b>	<b><u>466 611</u></b>
<b>Chief Whip</b>		
Annual remuneration	190 831	179 617
Allowances, contribution to UIF and related items	<u>73 071</u>	<u>70 204</u>
	<b><u>263 902</u></b>	<b><u>249 821</u></b>
<b>Exco members</b>		
Annual remuneration	1 717 476	1 616 550
Allowances, contribution to UIF and related items	<u>657 642</u>	<u>631 836</u>
	<b><u>2 375 118</u></b>	<b><u>2 248 386</u></b>
<b>Councillors</b>		
Annual remuneration	6 945 789	5 660 243
Allowances, contribution to UIF and related items	<u>2 792 070</u>	<u>2 185 830</u>
	<b><u>9 737 859</u></b>	<b><u>7 846 073</u></b>
<b>Traditional leaders</b>	<b>88 000</b>	-
<b>Total remuneration for councillors</b>	<b><u>13 480 777</u></b>	<b><u>11 400 635</u></b>
<b>20 INTEREST PAID</b>		
Long term liabilities	474 094	460 745
Bank overdraft	-	-
<b>Total interest on external borrowings</b>	<b><u>474 094</u></b>	<b><u>460 745</u></b>
<b>21 CHANGE IN ACCOUNTING POLICY</b>		
<b>21.1 Provision for the landfill site rehabilitation</b>	<b>-</b>	<b>-</b>
<b>22 COUNCILLORS OWING RATES</b>		
1. C N Yako	86 781	71 630
2. K Mviko	<u>53 599</u>	<u>46 596</u>
<b>TOTAL</b>	<b><u>140 380</u></b>	<b><u>118 226</u></b>
<b>NB:</b> These are the Councillors with accounts in arrears for more than 90 days		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

23 GENERAL EXPENDITURE	2012 R'1	2011 R'1
ACCOUNTING AND AUDIT FEES	1 897 567	1 882 430
ADVERTISING FEES	258 218	117 713
DATA LINES	39 827	70 855
BANK CHARGES	102 661	100 627
CATERING - MEETINGS	205 920	89 565
CLEANING MATERIALS	40 639	15 053
TOWING SERVICES	9 313	5 415
CONFERENCE FEES/WORKSHOP & ACC	15 200	18 050
CONSULTANTS & PROF. FEES	1 791 010	1 257 584
HEALTH SERVICE	59 812	5 741
EPWP	2 392 106	2 341 580
EARLYCHILDHOOD DEVELOPMENT	3 065	16 930
EQUITABLE SHARE	274 347	371 125
ELECTRICITY AND WATER PURCHASE	339 012	228 905
COMMUNICATION STRATEGY	24 000	403 362
CRIME PREVENTION	152 597	-
INTERNAL AUDIT	299 400	-
IDP DEVELOPMENT	494 974	128 037
INSURANCE : EXTERNAL	478 684	410 207
FMG	880 872	1 000
LEGAL FEES	849 488	1 060 692
LICENCE FEES	51 230	39 915
CRIME PREVENTION	183 781	286 703
PAUPER BURIALS	4 386	3 018
POSTAGE	4 404	4 243
PRINTING AND STATIONERY	371 410	271 986
DISASTER MANAGEMENT	25 190	-
PROTECTIVE CLOTHING	6 957	105 338
REGISTERING AUTHORITY	34 181	13 550
LIBRARY SERVICES	44 565	35 683
RENT - OFFICE EQUIPMENT	31 432	92 103
SUBSISTENCE & TRAVELLING	976 181	677 819
SURVEY AND PLANNING	265 725	393 497
SPECIAL PROGRAMMES	213 465	171 963
SPORTS & RECREATION	26 068	31 240
TELEPHONE	982 800	1 241 670
PARKS, POND & CEMETRY	5 133	85 965
DEPRECIATION	22 856 497	15 575
TRAINING - OFFICIALS	370 935	437 970
VODACOM	158 400	184 446
BEACH MANAGEMENT	46 800	82 500
PLANT UNIT	4 726 397	3 967 557
ARTS & CULTURE	72 907	64 455
MUNSOFT & PAYDAY	444 936	423 533
SUPPORT TO TRADITIONAL LEADERS	40 177	168 361
IGR	7 250	-
HOTEL ACCOMMODATION	999 721	385 977
REFUSE BAGS	208 480	161 438
COUNCIL FUNCTION	1 297 458	47 522
VEHICLES - FUEL & OIL	1 186 096	1 675 821
TRAFFIC LAW ENFORCEMENT	147 959	100 370
VEHICLE HIRE	985 699	749 131
CLEANING & GREENING	695 643	19 535
XXXXXXXXXX	-	50 000
MAJORITY FUND	-	-
COMPUTER HARDWARE	170 275	17 757
ALLOWANCE WARD ADMIN	-439	-
DEPARTMENT OF TRANSPORT	67 000	-
COMPUTER SOFTWARE	-	23 421
LOCAL ECONOMIC DEVELOPMENT	3 153 148	426 967
MIG EXPENDITURE	-	-
EXPENDITURE	-	21 985 607
	<b>51 467 959</b>	<b>42 967 507</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

2012	2011
R '1	R '1

**24 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

Bank balances and cash	43 063 696	15 471 914
Bank overdraft	-	-
<b>Total cash and cash equivalents</b>	<b>43 063 696</b>	<b>15 471 914</b>

**25 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**25.1 Irregular expenditure**

Reconciliation of irregular expenditure:

Opening balance	33 981 886	-
Irregular expenditure current year - adverts not in the notice board	7 954 936	-
Irregular expenditure current year - adverts for less than 14 days	26 026 950	-
Approved by Council or condoned	(33 981 886)	-
Transfer to receivables for recovery	-	-
<b>Total irregular expenditure for the year</b>	<b>-</b>	<b>33 981 886</b>

Incident	Disciplinary steps / criminal proceedings	
This is the procurement of goods and services above R 30 000(inl. Vat) without advertising them on the municipal notice board and website for atleast seven days and adverts for less than 14 days before closing date. This is as a result of the ambiguity in the Treasury SCM regulation. Three quotations were obtained	None.	None.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012 R '1	2011 R '1
<b>25 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>		
<b>25.2 Fruitless and wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	301 509	888 325
Fruitless and wasteful expenditure current year	25 530	301 509
Condoned or written off by Council	(301 509)	(888 325)
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting condonement	<u>25 530</u>	<u>301 509</u>

Incident	Disciplinary steps / criminal proceedings	
PAYE, UIF and SDL penalty and interest for non payment of these statutory deduction resulted in expenditure Included in the reported amount there is interest paid to Department of Labour for compensation commissioner	NA	NA

**25.3 Unauthorised expenditure**

Reconciliation of unauthorised expenditure:

Opening balance	-	-
Unauthorised expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery - not condoned	-	-
Unauthorised expenditure awaiting authorisation	<u>-</u>	<u>-</u>

Incident	Disciplinary steps / criminal proceedings	
Not applicable	Not applicable.	

**26 INVENTORY**

Opening balance	4 401 501	177 501
Increase in inventory	87 079	4 224 000
Transferred to expenditure		
Closing balance	<u>4 488 580</u>	<u>4 401 501</u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	<b>2012</b> R '1	<b>2011</b> R '1
<b>27 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>27.1 Audit fees</b>		
Opening balance	-	842 844
Current year audit fee	2 455 496	2 709 037
Amount paid - current year	(2 455 496)	(3 551 881)
Amount paid - previous years	-	-
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
	<b>=====</b>	<b>=====</b>
<b>27.2 PAYE and UIF</b>		
Opening balance	-	5 141 700
Current year payroll deductions	-	-
Amount paid - current year	-	(5 141 700)
Amount paid - previous years	-	-
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
	<b>=====</b>	<b>=====</b>
<b>28 CONTINGENT LIABILITIES</b>	<b>Amount <u>claimed</u></b>	<b>Amount <u>claimed</u></b>
Litigations that are still pending	3 619 803	1 647 191
Landfill site	140 858	129 381
	<b>=====</b>	<b>=====</b>
	<b>3 760 662</b>	<b>1 776 571</b>
	<b>=====</b>	<b>=====</b>
NB: These are employees with cases that are still pending and / or under arbitration process from which the outcome may favour any of the two parties involved. These employees are still on suspension pending their cases.		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	<b>2012</b> R '1	<b>2011</b> R '1
<b>29 CASH GENERATED/(UTILISED) BY OPERATIONS</b>		
Surplus/(deficit) for the year	42 787 995	36 918 112
Adjustment for:	-	-
Depreciation	22 856 497	21 962 306
Impairments	(806 485)	-
Prior year adjustment	-	533 348 831
Investment income	(2 405 634)	(1 604 941)
Interest paid	501 396	246 248
<b>Operating surplus/(deficit) before working capital changes:</b>	<b>62 933 771</b>	<b>590 870 556</b>
Increase in inventories	(87 079)	-
Decrease in consumer debtors	(156 579)	(4 401 501)
(Increase)/decrease in other debtors	(76 016)	763 852
Increase in creditors	3 748 018	5 117
Decrease in VAT	4 611 684	(6 068 697)
Decrease in unspent conditional grants and receipts	(5 900 425)	(2 001 382)
<b>Cash generated by / (utilised in) operations</b>	<b><u>65 073 374</u></b>	<b><u>579 167 944</u></b>

**30 ASSUMPTIONS**

**30.1 GOING CONCERN**

The annual financial statements have been prepared on the basis of accounting policies applicable to the going concern. This presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Municipality to continue as a going concern is dependant on a number of factors.

1. Liquidity - in terms of section 214 of the Constitution of RSA (Act 108) the parliament is instructed to provide for an Act (DORA) that will enable the National Government to raise and collect revenue from all sources and distribute it equitable to both Provincial and Local Government (Municipalities). Allocation for 2012/13 is R 111.2m and R 119.5m for 2013/14
2. Debtors collection - to fully comply with the credit control and debt collection policy the Municipality is procuring the services of the skilled debt collector to collect the outstanding debts from business and residents, we are embarking on a revenue enhancement programme.
3. Statutory payments - the municipality has settled all the major debts that were long outstanding including AGSA and SARS. The most significant of these is that the Accounting Officer continue to procure funding for the on-going operations of the Municipality. However the Municipality is positively recovering from a severe financial constraints. This is evident by the fact that non of the Municipality's creditors has been outstanding for a over than 30 days and there fact that there has been no overdraft in the current financial year. The sitting of Council meetings has improved in the current year, the council meetings that took place were more than four to discuss strategic documents

**30.2 EVENTS AFTER THE REPORTING DATE**

There are no major or significant activities that took place after the financial year end which may pose as a threat to assets and/or liabilities as reported in annual financial statements of the Municipality after 30 June 2012 but before 31 August 2012

**31 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted for is set out in Note 35

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

	2012	R'1 Dr/Cr
<b>32 Prior year adjustments</b>		
The following restatements have been affected to prior period account balances and classes of transactions due to errors which have been identified		
<b>Retained income</b>		
Balance previously reported		(37 062 980)
Retained	32.13	867 933
Reversal of vat	32.14	362 049
Raising a creditor - SARS	32.15	442 471
Raising WIP	32.16	(3 679 446)
PPE cemetries	32.17	(62 049)
PPE - furniture	32.18	(237 236)
PPE - vehicles	32.19	(2 986 448)
PPE - access roads	32.2	(7 514 597)
PPE - access roads	32.21	(213 402 152)
PPE - landfill site	32.22	(401 107)
Land	32.23	(12 994 731)
Land	32.24	(4 224 000)
Land	32.25	(287 800 000)
Plant	32.26	(1 141 897)
Tools	32.27	(2 720)
PPE	32.28	(122 013)
Depreciation	32.29	54 162
Acc Depn	32.3	173 872
Retained	32.31	185 018
 Restated total		<hr/> <b>(532 482 891)</b>

**Effect on each account**

VAT debtors reported in 2011		7 346 241
VAT reversals	32.14	(1 229 983)
Trade creditors reported in 2011		6 974 959
Raising of creditor	32.15	442 471
PPE reported at 2011		90 581 661
Effects of change in accounting policy		(534 568 396)
Acc depreciation reported in 2011		-
Raising of accumulated depreciation	32.29	413 052
		<b>(430 039 996)</b>

**SUB-NOTES**

- 32.13 **Vat debtors reduction**  
decrease in the VAT debtors that were raised in the previous years as a result of SARS assessments
- 32.14 **Vat debtors reduction**  
decrease in the VAT debtors that were raised in the previous years as a result of SARS assessments
- 32.15 **Creditor not raised**  
SARS - was not raised in the previous years as a creditor due to PAYE that was not paid over to SARS in the previous years
- 32.16 to 28 **PPE**  
The effects of PPE as a result of change in accounting policy.
- 32.29 **Accumulated depreciation**  
accounting for accumulated depreciation as a result of change in accounting policy

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**33 Financial Instruments**

**33.1 Financial assets**

2012	Investment					Total R'1
	Consumer debtors R'1	Sundry debtors R'1	held as collateral R'1	Bank and Cash R'1	Held to maturity R'1	
	1 274 271	1 009 477	3 817 673	15 471 915	-	
Opening balance						21 573 336
Net gains or losses recognised directly in net assets						-
Interest income			237 099			237 099
Impairments		303 930				303 930
Net other movements	256 002	-	-	27 591 781	-	27 847 782
<b>Closing balance</b>	<b>1 530 273</b>	<b>1 313 407</b>	<b>4 054 772</b>	<b>43 063 696</b>	<b>-</b>	<b>49 962 148</b>

Maximum credit exposure

Interest income includes:

- Interest on financial assets that are not at fair value through profit and loss
- Subsequent interest on impaired financial assets

2011	Investment					Total R'1
	Consumer debtors R'1	Sundry debtors R'1	held as collateral R'1	Bank and Cash R'1	Held to maturity R'1	
	2 038 122	1 018 883	3 554 016	11 221 137	-	17 832 158
Opening balance						
Interest income	(1 176 509)	(9 406)		4 250 778		3 064 863
Impairments		412 658				412 658
Net other movements	-	-	263 657	-	-	263 657
<b>Closing balance</b>	<b>1 274 271</b>	<b>1 009 477</b>	<b>3 817 673</b>	<b>15 471 915</b>	<b>-</b>	<b>21 573 336</b>

Interest income includes:

- Interest on financial assets that are not at fair value through profit and loss
- Subsequent interest on impaired financial assets

<b>Disclosed in the Statement of Financial Performance</b>	2012 R'1	2011 R'1
	186 140	412 658
Fee income		
On financial assets/liabilities not at fair value through profit and loss	186 140	412 658
Trust and/or other fiduciary activities		
Other fee income		
<b>Disclosed in the Statement of Financial Position</b>	<b>51 633 166</b>	<b>31 429 144</b>
Trade and other Receivables		
Trade and other Receivables	1 530 273	4 847 376
Investment held as a collateral	1 313 407	1 009 477
Vat	4 054 772	3 817 673
Cash and cash equivalents	1 671 019	6 282 703
	43 063 696	15 471 915

**NB:** The disclosures in IFRS 7.20 can either be presented in a list format as shown above or in a tabular format, depending on the preference of the user.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**33.2 Financial liability**

2012	Designated FVTPL - Held at FV through for trading		Loans and payables	Total
	R'1	R'1		
Opening balance	8 709 183	7 359 224	6 825 840	22 894 247
Interest expense			357 906	357 906
Net other movements	(5 804 613)	3 569 122		(2 235 490)
<b>Closing balance</b>	<b>2 904 570</b>	<b>10 928 346</b>	<b>7 183 746</b>	<b>21 016 663</b>

Interest expense include:

Interest on financial liabilities that are not at fair value through profit and loss

2011	Designated at Held for trading		Loans and payables	Total
	R'1	R'1		
Opening balance	10 710 565	14 414 786	6 825 841	31 951 192
Interest expense		-		-
Net other movements	(2 001 382)	(7 055 562)	(1)	(9 056 945)
<b>Closing balance</b>	<b>8 709 183</b>	<b>7 359 224</b>	<b>6 825 840</b>	<b>22 894 247</b>

Interest expense includes: Interest on financial assets that are not at fair value through profit and loss

	2012	2011
Disclosed in the Statement of Financial Performance	R'1	R'1
Fee expenses	357 906	575 615
On financial assets/liabilities not at fair value through profit and loss		
Trust and/or other fiduciary activities		
Other fee expenses	357 906	575 615

Categories of financial instruments	2012	2011
	R'1	R'1
Unspent conditional grants	2 808 758	8 709 183
Trade creditors & other payables	10 928 346	7 359 224
Loans and payables	7 183 746	6 825 840
Overdraft		
	<b>20 920 851</b>	<b>22 894 247</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2012**

**33.3 Qualitative disclosure:**

Key assumptions

**Credit risk**

Ingquza Hill Local Municipality has a very serious credit risk because of the debtors that are not paying for rates and taxes together with services. The Municipality has since engaged the use of a Debt collector to collect monies owed by the debtors and the Council has also resolved to right off the opening balances of the debts

The maximum exposure risk is estimated at 98% for the consumer debtors

**Liquidity risk**

The Ingquza Hill Local Municipality does not foresee any threat with regards to servicing of its debts utilising assets that can be quickly converted into cash and cash equivalents because the municipality is committing guaranteed income when budgeting to avoid the use of external loans and overdrafts to finance its operations.

**Market risk**

*Interest rate risk*

Not applicable to the Municipality, the loan with DBSA has a fixed interest rate of 6.75% per annum payable 6 monthly twice a year.

For maturity refer to note 2

*Foreign currency risk*

Not applicable to the Municipality because the Municipality does not deal with foreign currency and banks with the approved financial institutions in the Country

*Price risk*

Not applicable to the Municipality

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**34 RELATED PARTY TRANSACTIONS**

**34.1 Interest of related parties**

**Councillors and/or managers of the municipality that have relationships with businesses as indicated below:**

Name	Designation	Description of Related Party Relationship
None	None	None

**34.2 Services rendered to related parties**

The municipality did not render any services during the year to anyone that can be considered as a related party.

**34.3 Loans granted to related parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No

**34.4 Purchases from related parties**

The municipality did not buy goods from any companies which can be considered to be Related Parties.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**35 Actual versus budget (Revenue and expenditure)**

Actual 2011	Description	Actual 2012	Approved Budget 2012	Difference	Management reasons
8 485 304	<b>Revenue</b>	2 608 504	-7 644 030	(10 252 534)	6%
232 857	Taxes	372 600	-200 000	(572 600)	Improved collections on fines, summons, etc
3 449 103	Fees, fines, penalties & licences				Improved demand on sale transaction & other revenue sources
122 790 985	Revenue from exchange transactions	3 799 787	-1 373 400	(5 173 187)	
10 427 052	Transfers from other governments	139 240 425	-133 322 000	(272 562 425)	3%
	Other operating	9 800 129	-18 798 598	(28 598 728)	Decrease in demand from customers for these services
<b>145 385 301</b>	<b>Total revenue</b>	<b>155 821 445</b>	<b>-161 338 028</b>	<b>(317 159 473)</b>	6%
	<b>Expenses</b>				
(57 735 882)	Personnel	(60 992 460)	(71 246 119)	(10 253 658)	Some posts remain vacant in the year
(50 485 059)	Administrative	(51 539 593)	(36 259 746)	15 279 847	8%
-	Transfer payments	-	-	-	
-	Capital expenditure	(9 475 129)	(52 553 084)	(43 077 955)	Some projects are still pending and funds reported as such
-	Miscellaneous	-	-	-	
(246 248)	Finance costs	(474 094)	(480 732)	(6 638)	Decrease due to adjustments, by banks and SARS
<b>(108 467 189)</b>	<b>Total expenditure</b>	<b>(122 481 276)</b>	<b>(160 539 681)</b>	<b>(38 058 404)</b>	

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2012

36

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance		Under Construction	Transfer / Disposals	Closing Balance	Opening Balance		Additions	Disposals	
	R	R	R	R	R	R	R	R	R	R
Municipal council	304 236 800	-	-	-	304 236 800	-	-	-	-	304 236 800
Management office				-	-	-	-	-	-	-
Budget and treasury	3 735 615	841 313	-	-	4 576 928	192 215	113 930	-	306 145	4 270 783
Community & Social Services	62 049	5 059 241	-	-	5 121 290	12 932	60 770	-	73 702	5 047 588
Human resources	1 085 573	1 178 841	-	-	2 264 414	45 671	137 778	-	183 449	2 080 965
Local Economic Development				-	-	-	-	-	-	-
Infrastructure and engineering	273 377 836	24 912 716	16 321 736		314 612 288	21 741 723	22 543 782	-	44 285 505	270 326 783
<b>Total</b>	<b>582 497 873</b>	<b>31 992 111</b>	<b>16 321 736</b>	<b>-</b>	<b>630 811 719</b>	<b>21 992 541</b>	<b>22 856 260</b>	<b>-</b>	<b>44 848 801</b>	<b>585 962 918</b>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2012

**37 SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012**

EXTERNAL Number	Loan Redeemable	Balance at 01/07/2011	Paid during the year	Interest for the year	Balance at 30/06/2012
		R	R	R	R
DBSA - Loans		6 940 712	359 224	474 039	6 940 657
		6 940 712	359 224	474 039	6 940 657

**NB:** This is a financial liability

**38 Deviation disclosure**

Reconciliation of deviation's disclosure:

Opening balance	142 386	-	
Deviations made in the current year		142 386	
Condoned by council	(142 386)		
Total deviations made in the current year	<u><u>-</u></u>	<u><u>142 386</u></u>	

Incident
<p>These are the deviations that occurred in terms of s17 of the SCM regulations which allows the CFO or an official designated by CFO to approve such a deviation stating reasons why the SCM regulations and/or Municipal scm policy was not fully complied with when performing procurement procedures to acquire goods that require three quotes and only receive two quotes to make an example, unlike s36 of the regulations which does not apply in the case of this Municipality because there has been no instances where goods or services were acquired not through SCM either by directly approaching a service provider because of emergency,etc.</p>

Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
R	R
-	-
-	-

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2012

**39**

**FINANCE LEASE LIABILITY**

<b>2012</b>	<b>Minimum lease payment</b>	<b>Future finance charges</b>	<b>Present value of minimum lease payments</b>
	R	R	R
<b>Amounts payable under finance leases</b>			
Within one year	130 730	34 918	95 812
Within two to five years	147 308	19 058	155 250
	<u>278 038</u>	<u>53 976</u>	<u>251 062</u>
Less: Amount due for settlement within 12 months (current portion)			(95 812)
			<u>155 250</u>

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

<b>2011</b>	<b>Minimum lease payment</b>	<b>Future finance charges</b>	<b>Present value of minimum lease payments</b>
	R	R	R
<b>Amounts payable under finance leases</b>			
Within one year	-	-	-
Within two to five years	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Less: Amount due for settlement within 12 months (current portion)			-
			<u>-</u>

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.